March 12, 2014
Company Report
Rating: BUY
TP: HK$ 4.00

Share price (HK$)	2.72
Est. share price return	47.1%
Est. dividend yield	6.6%
Est. total return	53.7%
Previous Rating &TP	HK$3.10, BUY
Previous Report Date	Nov 22, 2013

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Key Data

52Wk H/L(HK$)	2.82/1.54
Issued shares (mn)	4,930
Market cap	13,473
3-mth avg daily turnover (HK$ mn)	23.05
Major shareholder(s) (%):	
Kwok's Family	62.4

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Property development	97.8
Property investment	1.1
Property management	0.9
Others	0.2

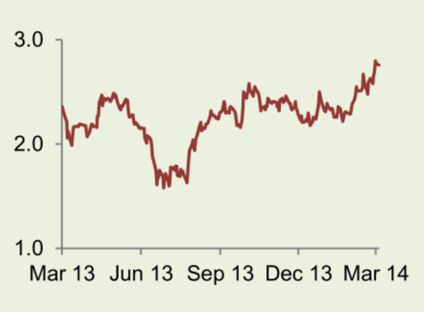
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	11.9	9.7
3-mth	23.1	29.8
6-mth	12.9	17.6

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK$)



Source(s): Bloomberg, ABCI Securities

Kaisa (1638 HK)

Top pick in China property sector

- We have recently met with Kaisa's management for updates on the latest industry developments
- Mortgage tightening is not a major concern to Kaisa due to its high proportion of cash buyers. Management believe that price cut has only been adopted by individual small developers
- Growing presales (FY14 sales target: RMB 30bn, +25% YoY) and improving margin (gross margin: >35%) will be key re-rating catalysts for Kaisa
- Kaisa is now our Top **BUY** with a revised TP of HK$ 4.00, based on a 50% discount to our end-2014E NAV

Key takeaways from Company visit: market concern not applicable to Kaisa. We have met with Kaisa's CFO for the latest updates on China property sector. Management commented that the tightened mortgage rules (discount for first-time home buyers has been cancelled) would have limited impact on the Group given the high proportion of cash buyers (38% of total buyers). In his opinion, banks' attitude in construction lending has remained largely unchanged. They believe price cut has only been carried out by individual small developers suffering from trust loan refinancing problems. With increasing exposure in first-tier regions where land supply is tight, Kaisa is unlikely to suffer from oversupply or price war.

Two re-rating catalysts: growing presales and improving margin. In the next 3-5 years, we are confident that Kaisa could achieve a 20%-25% yoy growth in presale annually and improve margins consistently. Faster-than-industry presales growth should be supported by the RMB 14bn land acquisition last year and increasing exposure in first-tier cities; faster redevelopment progress (Pinghu and Kaisa Global Centre projects) should drive up GPM to exceed 35% (vs FY13: 33.8%).

Top pick in China property sector. As we factor in the latest land acquisitions and a reduced cost of debt at 8.1% for FY13 (from 10.2%), we raise our end-2014E NAV estimate to HK$ 8.03/share (from HK$ 5.62/share) on a lowered WACC assumption in our DCF valuation. Our revised TP of HK$ 4.00 is based on a 50% discount (unchanged) to NAV, comparable to the counter's historical average in 2011/12 when tightening measures were in place. Kaisa's current share price implies a FY14E dividend yield of 6.6%. With its attractive valuation at 3.4x 2014E PE and 66% discount to NAV, Kaisa has replaced China South City (7.0x FY15E PE & 53% discount to NAV) to be our top pick for China property sector. Maintain **BUY.**

Risk factors： 1) Timing of redevelopment project approvals are uncertain; 2) Policy tightening.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (RMB mn)	11,955	19,523	26,181	31,030	33,611
Chg (%,YoY)	10.3	63.3	34.1	18.5	8.3
Core Net Income (RMB mn)[1]	1,504	2,516	3,498	4,575	5,274
Chg (%,YoY)	(4.6)	67.3	39.0	30.8	15.3
Underlying EPS (RMB)	0.27	0.46	0.63	0.83	0.95
Chg (%,YoY)	(4.2)	67.3	39.0	30.8	15.3
BVPS (RMB)	2.6	3.1	3.6	4.3	5.0
Chg (%,YoY)	20.7	20.5	16.0	18.4	16.4
Underlying PE (x)	7.9	4.7	3.4	2.6	2.2
P/B (x)	0.8	0.7	0.6	0.5	0.4
ROE (%)	10.5	14.5	17.4	19.3	19.1
ROA (%)	2.6	2.9	3.7	4.5	4.9
DPS(HK$)	-	0.15	0.18	0.28	0.32
Yield (%)	-	5.5	6.6	10.3	11.9
Net gearing (%)[2]	70.1	78.2	27.4	Net cash	Net cash

[1]Core net income =Net profit - revaluation gain of investment properties and one-off items
[2]Net gearing=Net debt/Shareholders' equity
Source(s): Bloomberg, ABCI Securities estimates

Company visit takeaways

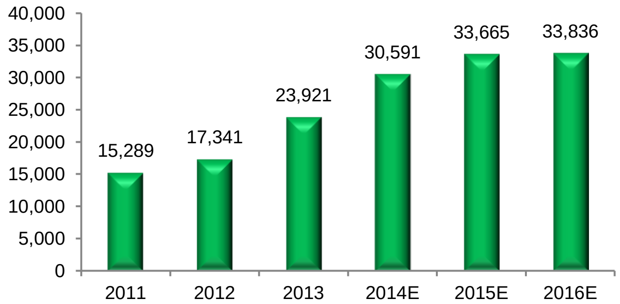
We have met with Kaisa's CFO recently for updates on the latest industry developments. Key takeaways of the meeting include:

- **Credit tightening**: Management commented that mortgage rules have been slightly tightened. In general, the 15% mortgage discount for first-time home buyers is now cancelled. Mortgage approval is lengthened from 3 weeks to about 5 weeks. However, given its high proportion of cash buyers (38% in FY13), relevant tightening should not be a major concern for Kaisa. Regarding construction loans from banks, banks' attitude has remained largely the same, as opposed to the media report that lending to developers was halted by some of the banks. Kaisa's onshore borrowing cost from banks remains stable at ~15% above PBOC rate at present.
- **Market concerns on recent price cut in Hangzhou:** Management claimed that an industry-wide price cut has not been observed in the cities where the Group's projects are located. They believe only the small developers suffering from trust loan refinancing problems have slashed prices. Kaisa believes first-tier cities have a better outlook given the limited land supply. High land prices could result in developers slowing their sales paces for better ASPs, as landbank replenishment becomes increasingly difficult. For 2014, around 1/3 of Kaisa's presales should come from first-tier cities.
- **Prudent gearing level:** Kaisa is likely to reduce its land acquisition in 2014 because of the high land expenditure totaling RMB 14bn in 2013. Net gearing is unlikely to exceed 80% going forward.
- **Urban redevelopment progress:** Although Kaisa did not acquire any projects in Shenzhen in land auction last year, Kaisa expects saleable resources in the city to expand in the next few years based on its existing redevelopment pipeline, despite progress for Guangzhou's redevelopment projects (total site area: 5.1mn sqm, 51% of total redevelopment pipeline) has been slower than expected.

Re-rating catalysts in sight: growing presale and margins

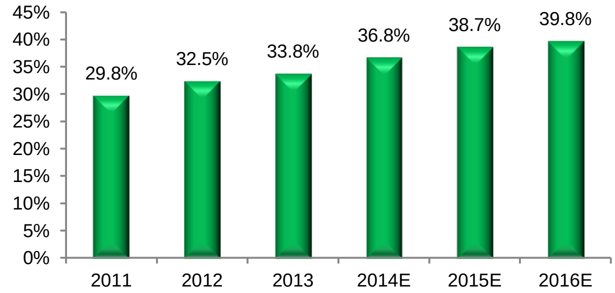
We are confident that Kaisa could achieve a 20%-25% yoy presales growth annually and consistent improvement in margins over the next few years. Growing presale and margins will be the two key re-rating catalysts for the Group.

Exhibit 1: Kaisa's presales (RMB mn)



Source(s): Company, ABCI Securities estimates

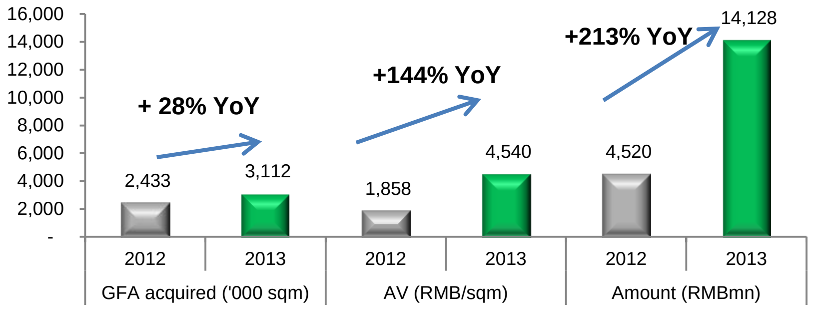
Exhibit 2 : Kaisa's gross margin (%)



Source(s): Company, ABCI Securities estimates

2014 presales target is conservative: On the back of strong land acquisition in FY13 (RMB 14bn,+213% YoY), we believe growth momentum in Kaisa wil be sustainable despite an already high presales base of RMB 23.9bn (+39% YoY) last year. Kaisa's 2014 sales target of RMB 30bn implies a slower growth of 25%, mainly due to the management prudent sell-through assumption of 50% while saleable resources should grow 37% YoY. We expect sell-through to stabilize at 60% on increasing exposure in first-tier cities where demand is stronger. Also, Kaisa had received RMB 3.5bn in deposits from commercial properties soon to be on sale. Kaisa's cash inflow could be better than its presales figure suggested.

Exhibit 3: Kaisa's land acquisition- FY13 vs FY12



Source(s): Company, ABCI Securities

Exhibit 4: Kaisa's 2014 guidance

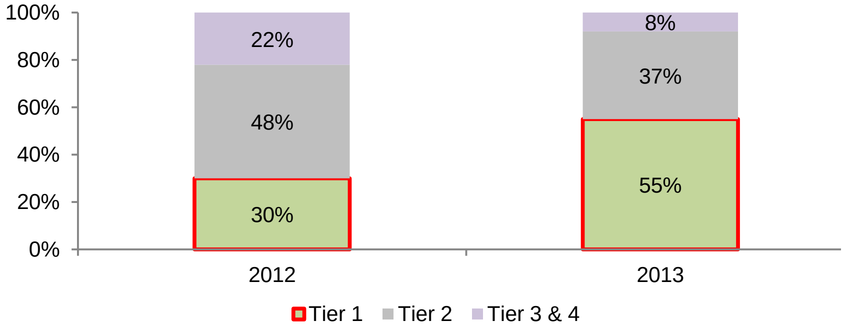
		2013	2014E	YoY chg (%)
<u>**Sales target**</u>				
Presale	**(RMB bn)**	**23.9**	**30.0**	**25%**
GFA available for sales	(mn sqm)	4.05	5.17	28%
Presales ASP	(RMB/sqm)	9,764	10,500	8%
Sellable resources	**(RMB bn)**	**39.5**	**54.3**	**37%**
Sell through rate	***(%)***	***60%***	***55%***	
GFA Completion	**(mn sqm)**	**2.98**	**3.50**	**17%**
GFA delivery	**(mn sqm)**	**2.56**	**2.6-2.8**	**1-9%**
<u>**Cashflow**</u>				
Sales proceeds	(RMB bn)	26.8	30.0	12%
Land premium	(RMB bn)	(15.0)	(13.1)	-13%
Construction	(RMB bn)	(9.3)	(12.0)	29%
SG&A	(RMB bn)	(1.5)	(2.0)	33%
Finance costs	(RMB bn)	(2.2)	(2.0)	-9%
Taxes and others	(RMB bn)	(2.3)	(3.6)	57%
Net cashflow		**(3.5)**	**(2.7)**	

Source(s): Company, ABCI Securities estimates

Margins supported by redevelopment projects: Increasing exposure in first-tier cities and accelerated urban redevelopment projects should support a healthy improvement in margin for Kaisa. In 2013, Kaisa's land acquisition in first-tier cities represented 55% of total (vs. 30% in 2012); progress of redevelopment projects also accelerated. The Group obtained government's approval for Shenzhen Kaisa Global Center to increase GFA from 142k to 229k sqm. Another ~200k sqm from Shenzhen Pinghu project is expected to be secured by Mar 2014.

According to management, the unbooked revenue of RMB 19.4bn has a gross margin of 35%. As percentage of high-margin redevelopment project (gross margin: 50%) should increase in future, we believe the Group's gross margin could reach 38%-39% level by 2016E.

Exhibit 5: Land premium paid by city



Source(s): Company, ABCI Securities

Exhibit 6: Redevelopment projects as at Dec 2013

Government- approved projects

Project	GFA ('000 sqm)	Status
Shenzhen Kaisa City Plaza	973.6	Under Presales
Zhuhai Lake View Waldorf Garden	550.4	Under Presales
Shenzhen Dapeng Kaisa Peninsula Resort	130.5	Under Presales
Dongguan Le Grand Bleu	525.9	Held for future development
Shenzhen Kaisa Global Center	142.0	Held for future development
Total	**2,322.5**	

Pipeline

Project	GFA ('000 sqm)	Site Area ('000 sqm)	Status
Pinghu Town Project	189	1,000	Gazetted
Yantian Projects	439	266	Gazetted
Golden Bay Resort	42	35	Gazetted
Henggang Anliang Village 8 project		327	Gazetted
Henggang Anliang Village 6 project		204	Gazetted
Nanmendun Project		122	Gazetted
Others (15 Projects)		2,769	MOU signed
Shenzhen total	**669**	**4,722**	
Lianbian Village Project		2,600	MOU signed
Xiaoping Village Project		1,200	MOU signed
Yagang Village		800	MOU signed
Shixi Village		400	MOU signed
Tonghe Project		54	MOU signed
Gunagzhou total		**5,053**	
Dongguan Fenggang Project		177	
Total		**9,953**	

Source(s): Company, ABCI Securities

Other FY13 results highlights include:

- **Reduced cost of debt:** Effective interest rate dropped from 10.2% in 2012 to 8.1% in 2013, following several bond issuances in 2013 with coupon rates below 10% (Mar 2013: US$ 550mn at 8.875%; Apr 2013: RMB1.8bn at 6.875%). Net gearing only rose moderately to 78% in 2013 (from 70.1%). If we included minority interest as equity, net gearing actually dropped from 67% to 62%, as Kaisa acquired a non-wholly owned project in 4Q13.
- **No.1 in Shenzhen:** Based on ShenzhenHome's statistics, Kaisa ranked No.1 in Shenzhen's primary residential market both in terms of sales and GFA sold. Shenzhen Kaisa City Plaza, the best-selling project in Shenzhen, contributed to 19% of the Group's presale with the latest ASP of RMB 23,000/sqm.

Exhibit 7: Kaisa's FY13 results

P&L	2013	2012	YoY Chg
	RMB mn	RMB mn	(%)
Turnover	**19,523**	**11,955**	***63.3***
Cost of Sales & direct operating costs	(12,923)	**(8,070)**	*60.1*
Gross Profit	**6,600**	**3,885**	***69.9***
Gross Margin (%)	***33.8***	***32.5***	***1.3***
SG&A	(1,814)	(1,397)	*29.9*
EBIT	**4,786**	**2,489**	***92.3***
EBIT Margin (%)	***24.5***	***20.8***	
Other income, gains and losses	38	62	*(39.6)*
Fair value gain of investment properties	780	515	*51.6*
Other exceptional items	(325)	243	*na*
Share of profit from JCE/ Associates	0	0	*na*
Finance cost	(122)	(39)	*218.0*
Profit before tax	**5,156**	**3,270**	*57.7*
Tax	**(2,293)**	**(1,153)**	***98.9***
- LAT	(453)	(225)	*101.8*
- Enterprise tax	(1,840)	(929)	*98.1*
Profit after tax	**2,863**	**2,117**	*35.2*
Minority Interest	(5)	(5)	*0.0*
Net profit	**2,857**	**2,111**	*35.3*
Underlying net profit	**2,516**	**1,504**	*67.3*
Operating statistics			
Presales GFA (mn sqm)	2.45	2.58	*(4.9)*
Presales ASP (RMB/sqm)	9,760	6,730	*45.0*
Presales (RMB mn)	**23,920**	**17,341**	*37.9*
GFA Delivered (mn sqm)	2.56	1.65	*55.5*
Booked ASP (RMB/sqm)	7,450	7,037	*5.9*
Property sales booked (RMB/sqm)	**19,090**	**11,598**	***64.6***
Balance sheet	**Dec-13**	**Dec-12**	*HoH %*
	RMB mn	**RMB mn**	
Net debt	**13,519**	**10,055**	*34.4*
Net gearing (%)	**78.2**	**70%**	*77.5*

Source(s): Company, ABCI Securities

Raise TP to HK$ 4.00; top pick for China property sector

As we factor in the latest land acquisition and a reduced cost of debt at 8.1% for FY13 (from 10.2%), our end-2014E NAV estimate becomes HK$ 8.03/share (from HK$5.62/share) based on the lower WACC assumption in our DCF valuation. Our revised TP of HK$ 4.00 reflects a 50% discount to end-2014E NAV, comparable to the counter's historical average in 2011/12 when tightening measures were in place.

With Kaisa's strong presales and margin outlooks, we expect the Group's dividend to increase gradually following its first distribution for FY13. Current share price implies a FY14E dividend yield of 6.6%, assuming a payout ratio of 25% (low-end of the industry range of 20%-35%). With an attractive valuation at 3.4x 2014E PE and 66% discount to end-2014E NAV, Kaisa has replaced China South City (7.0x FY15E PE & 53% discount to NAV) to be our top pick for China property sector. Maintain **BUY**.

Exhibit 8: Kaisa's FY14E NAV

	Attr. GFA (Mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
PRD	9.0	16,405	40%	DCF at WACC of 12.8%	1,814
Pan-Bohai Bay Rim	7.0	7,383	18%		1,052
YRD	0.9	4,156	10%		4,719
Western	2.0	2,739	7%		1,337
Others	4.8	7,913	20%		1,657
Subtotal	**23.8**	**38,596**	**95%**		**1,624**
Investment Properties		1,945	5%	6.0% cap rate on 2014E net rental income	
Total 2014E GAV		**40,541**	**100%**		
2014E Net debt		(5,505)	-14%		
Total 2014E NAV		**35,036**	**86%**		
No. of share outstanding (diluted)		5,526			
NAV per share (RMB)		**6.34**			
Ex rate		1.27			
NAV per share (HK$)		**8.03**			
Target discount (%)		50%			
Target Price (HK$)		**4.00**			

WACC	**12.8%**
Cost of Debt	8.5%
Cost of Equity	20.0%
Debt/ (Debt + Equity)	**53%**

Source(s): Company, ABCI Securities estimates

Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Revenue	**11,955**	**19,523**	**26,181**	**31,030**	**33,611**
Cost of sales	(8,070)	(12,923)	(16,549)	(19,021)	(20,250)
Gross Profit	**3,885**	**6,599**	**9,632**	**12,010**	**13,361**
SG&A expenses	(1,397)	(1,814)	(2,064)	(2,216)	(2,271)
EBIT	**2,489**	**4,785**	**7,568**	**9,793**	**11,090**
Finance cost	(39)	(122)	(47)	(42)	(42)
Share of profit of associates	(0)	0	0	0	0
Other income/ (expenses)	62	38	127	211	296
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	757	455	0	0	0
Profit before tax	**3,269**	**5,155**	**7,648**	**9,963**	**11,344**
Tax	(1,153)	(2,293)	(3,716)	(4,837)	(5,537)
Profit after tax	**2,116**	**2,862**	**3,933**	**5,126**	**5,807**
Minority interest	(44)	(5)	(435)	(551)	(533)
Reported net profit	**2,072**	**2,857**	**3,498**	**4,575**	**5,274**
Less: exceptional items	*(568)*	*(341)*	*0*	*0*	*(0)*
Underlying net profit	**1,504**	**2,516**	**3,498**	**4,575**	**5,274**
Per share					
Underlying EPS (RMB)	0.27	0.46	0.63	0.83	0.95
DPS (RMB)	-	0.15	0.18	0.28	0.32
Payout ratio (%)	0%	33%	28%	34%	34%
BVPS (RMB)	2.60	3.13	3.63	4.30	5.01
Growth %					
Revenue	10.3%	63.3%	34.1%	18.5%	8.3%
Gross Profit	20.2%	69.8%	45.9%	24.7%	11.3%
EBIT	9.9%	92.3%	58.1%	29.4%	13.2%
Underlying net profit	-4.6%	67.3%	39.0%	30.8%	15.3%
Margin %					
Gross margin	32.5%	33.8%	36.8%	38.7%	39.8%
Gross margin (post-LAT)	31.6%	32.2%	28.1%	29.1%	29.5%
EBIT margin	20.8%	24.5%	28.9%	31.6%	33.0%
Core net margin	13.0%	12.9%	15.0%	16.5%	17.3%
Key assumptions					
Presale (RMB mn)	17,341	23,921	30,591	33,665	33,836
GFA sold (m sqm)	2.58	2.45	3.06	3.37	3.52
ASP (RMB/sqm)	6,730	9,764	10,003	9,975	9,624
Booked Sales (RMB)	11,598	19,090	25,714	30,538	33,091
GFA delivered (m sqm)	1.65	2.56	2.76	3.09	3.36
Booked ASP (RMB/sqm)	7,037	7,451	9,314	9,871	9,846

Source: Company, ABCI Securities estimates

Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Current assets	**49,836**	**77,270**	**83,900**	**90,270**	**94,878**
Cash	4,683	6,766	14,780	23,620	31,618
Restricted cash	670	1,940	1,940	1,940	1,940
Trade & other receivables	5,843	12,986	12,986	12,986	12,986
Property under development	34,840	51,304	49,919	47,450	44,059
Other current assets	3,801	4,275	4,275	4,275	4,275
Non-current assets	**8,117**	**10,538**	**11,034**	**11,530**	**12,026**
Property, plant & equipment	308	580	576	572	568
Investment properties	7,540	9,595	10,095	10,595	11,095
Investment in Associate and JCE	0	0	0	0	0
Other non-current assets	269	363	363	363	363
Total Assets	**57,953**	**87,808**	**94,933**	**101,800**	**106,904**
Current Liabilities	**29,439**	**46,549**	**50,527**	**53,193**	**53,913**
Short term borrowings	3,150	4,024	4,024	4,024	4,024
Trade & other payables	7,112	9,998	9,998	9,998	9,998
Pre-sales deposits	17,244	29,639	33,618	36,284	37,003
Other current assets	1,933	2,888	2,888	2,888	2,888
Non-current liabilities	**13,460**	**19,501**	**19,501**	**19,501**	**19,501**
Long term borrowings	12,257	18,201	18,201	18,201	18,201
Other non-current assets	1,202	1,300	1,300	1,300	1,300
Total Liabilities	**42,898**	**66,050**	**70,029**	**72,694**	**73,414**
Net Assets	**15,054**	**21,758**	**24,905**	**29,106**	**33,490**
Shareholders' Equity	**14,350**	**17,298**	**20,060**	**23,760**	**27,662**
Minority Interest	704	4,461	4,845	5,346	5,829
Total Equity	**15,054**	**21,758**	**24,905**	**29,106**	**33,490**
Key ratio					
Gross debt (RMB mn)	15,408	22,225	22,225	22,225	22,225
Net debt (RMB mn)	10,055	13,519	5,505	(3,335)	(11,334)
Net gearing (%)	70%	78%	27%	Net cash	Net cash
Presale/ Total assets (x)	0.30	0.27	0.32	0.33	0.32

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	2,531	4,859	7,642	9,867	11,164
Change in Working Capital	(882)	(7,459)	7,317	6,872	5,847
Tax payment	(906)	(2,293)	(3,716)	(4,837)	(5,537)
Operating Cashflow	**743**	**(4,893)**	**11,243**	**11,901**	**11,473**
Purchase of PP&E	(73)	(70)	(70)	(70)	(70)
Addition of Investment Properties	(531)	(500)	(500)	(500)	(500)
Others	(553)	38	127	211	296
Investing Cashflow	**(1,157)**	**(532)**	**(443)**	**(359)**	**(274)**
Debt raised	5,216	9,628	5,000	5,000	5,000
Debt repaid	(3,533)	-	(5,000)	(5,000)	(5,000)
Interest expenses	(1,468)	(2,070)	(2,000)	(1,778)	(1,778)
Equity raised	(1,157)	(532)	(443)	(359)	(274)
Dividend to shareholders	-	-	(736)	(874)	(1,373)
Others	2,094	482	393	309	224
Financing Cashflow	**1,151**	**7,509**	**(2,786)**	**(2,702)**	**(3,200)**
Net cash inflow/ (outflow)	**737**	**2,083**	**8,014**	**8,840**	**7,998**
Cash- beginning	3,945	4,683	6,766	14,780	23,620
Cash- year-end	**4,682**	**6,766**	**14,780**	**23,620**	**31,618**

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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